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Martin Wolf: The new workshop of the world

By Martin Wolf

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Bernard Yau is a happy man. Son of a nationalist general who was among the last refugees from the victorious communists in 1949, he has come back to the mainland. An American citizen, with a home in Hawaii, he is also chairman of Golden Dragon Aerospace, located in the Chengdu Export Processing Zone.

Mr Yau has reason to be happy. His company, founded just three years ago, makes 70 per cent of the world's fuel nozzles for commercial aircraft with more than 100 seats. It supplies 100 per cent of Rolls-Royce's requirements and 60 per cent of General Electric's. When the company started operations in 2000, the world contained three dozen manufacturers of this component. Today, only two are left: Golden Dragon and a fragile US supplier. It is fragile, because Golden Dragon's costs are a quarter of its rival's.

Golden Dragon has a stable, highly qualified labour force, paid two to three times as much as those working in local state-owned enterprises. Even so, the average wage for a production worker is just \$250 a month, while the senior people are available at \$1,250 a month, or less. Fuel nozzles must also be delivered on time and made to high standards. Golden Dragon's are. In Mr Yau's words, his company has achieved "zero defects" and "zero days late" in delivery. Mr Yau confronts only one problem: how to manage expansion. Today, it is fuel nozzles. Tomorrow, it will be other things. Today, Golden Dragon has annual turnover of only \$5m. Next year, it could be anywhere between \$10m and \$20m.

Deng Xiaoping said that it did not matter whether a cat was black or white, so long as it caught mice. The capitalist son of a nationalist general, Mr Yau is a cat of a decidedly different colour. But nobody minds in the least. He catches mice. That is what matters.

Golden Dragon's story is a microcosm of what is happening in China. Repeated many times over, it is turning China into the 21st century's workshop of the world. Five hundred foreign enterprises have invested \$1.5bn in Chengdu's Hi-Tech Industrial Development Zone alone. Intel, for example, is investing \$375m in a testing and packaging plant.

I love data. However unreliable China's data may be, they must be more trustworthy than the impressions of an outsider visiting the country for just 10 days. But on this, my third trip to China in 10 years, the impressions have been overwhelming.

The dynamism is to be seen everywhere. It is to be seen in the scale and speed of construction, not just in Beijing and Shanghai but even in Chengdu, capital of Sichuan, a south-western province whose gross domestic product per head is a sixth of Shanghai's. Even Chengdu, a city of little more than 4m people, is full of huge new buildings. It is also full of cars.

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Beijing is now choking on them. When I last visited the city, six years ago, it was possible to reach meetings in a quarter of an hour. Now, the time required for the same journeys is anywhere between two and four times as long. By 2007, Chinese production capacity of all kinds of motor vehicles will be 15m. This threatens a global glut. At home, the growth in the number of vehicles seems certain to outpace even the Chinese ability to put land under tarmac. Beijing already has a fifth ring-road. Even that is not enough.

The story of Golden Dragon does not just tell us about China's dynamism but also about its pragmatism. Communist ideology has not vanished altogether. One can see it in the continuing refusal to grant absolute private ownership of land and the desire to retain substantial state ownership of industry. But the party must provide prosperity. Whatever works towards that end is a good policy.

When I first visited the country, many of the top officials I met were traditional party functionaries. Today, their replacements are technically competent, professional and frequently foreign-trained. These officials confront huge challenges. The insolvency of the banks is just one example. It is easy to believe that they will fail in some of their efforts. It is easy, too, to believe that some of their decisions will be mistaken. But neither ideology nor ignorance of the world will be an obstacle to their success.

If dynamism and pragmatism are two obvious positive features of contemporary China, the nightmares are equally evident. China could end up creating the world's longest and biggest megalopolis, stretching all the way along its coast. It might generate overwhelming local congestion and pollution, not to mention a huge addition to global emissions of carbon dioxide.

Even if one plays down the nightmares, one cannot ignore the looming upheavals. If China sustained the past decade's growth in export volume, it could generate a third of the world's merchandise exports by 2025, up from about 6 per cent today. It will certainly generate a much bigger share than now.

Upheaval is also the right world for the domestic transformation. Today, China's population is almost 40 per cent urbanised. In 20 years, this proportion will be close to 60 per cent, suggests Wang Mengkui, director of the development research institute of the state council. That would mean movement of some 300m people from rural to urban areas. Some believe this number will be closer to 500m. Either way, China would cease to be the predominantly rural country it has been for millennia. This really is a "cultural revolution", one brought about not by Red Guards but by the market.

A visit to China makes abundantly clear that what is happening here is, for all the difficulties with measurement, not only real but also unstoppable by anything short of a cataclysm. The energies of more than a billion people are now engaged. The Chinese authorities talk of quadrupling GDP over the next two decades. I would not bet against them. If policy improved, growth could easily be faster than that.

Samuel Johnson remarked that a man is never so innocently employed as when he is making money. Mr Yau is endeavouring to make money, while helping his ancestral country develop. So, as best they can, are hundreds of millions of Chinese. The employment is innocent indeed. But it is also creating a revolutionary transformation. The rest of the world will have to get used to that fact.

[martin.wolf@ft.com](mailto:martin.wolf@ft.com)


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